

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 EA-10
IO-13 NEA-10 AGRE-00 DODE-00 PM-05 H-01 L-03
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FM AMEMBASSY ROME

TO SECSTATE WASHDC 6838

TREAS DEPT WASH DC

INFO AMEMBASSY BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY PARIS

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BRUSSELS FOR USEC; PARIS FOR OECD; DEPARTMENT PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT, IMF

SUBJECT: DEBATE ON IMF CREDIT EXPANSION CEILING

1. IN RECENT DAYS , ITALIAN PRESS HAS REPORTED DEBATE AMONG
ECONOMISTS, GOVERNMENT AND POLITICAL PARTY OFFICIALS ABOUT
IMF DOMESTIC CREDIT EXPANSION CEILING. CEILING HAS
BEEN CRITICIZED AS BEING EXCESSIVELY RESTRICTIVE, PARTICULARLY
FOR SECOND HALF OF 1977, AND AS THREATENING TO
DEPRESS EXCESSIVELY REAL ECONOMIC ACTIVITY AND EMPLOYMENT.

2. ON OCCASION OF COURTESY CALLS BY NEW TREASATT, EMBOFFS
ASKED MINISTER OF FOREIGN TRADE OSSOLA, BANK OF ITALY
GOVERNOR BAFFI AND OTHER BOI OFFICIALS THEIR OPINIONS ON
THIS CONTROVERSIAL ISSUE. GOVERNOR BAFFI SEEMED RATHER
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CONCERNED THAT CURRENT IMF CEILING WILL PROVE TO BE TOO
STRINGENT AND IMPLIED THAT GOI MAY WANT TO RENEGOTIATE
CEILING DURING FORTHCOMING VISIT TO WASHINGTON IN
CONNECTION WITH FUND/BANK MEETINGS. BAFFI SAID THAT
ITALIAN ECONOMY MUST BE ALLOWED TO PRODUCE AT ADEQUATELY
RAPID PACE OR, LIKE AN AIRCRAFT, IT WOULD STALL OUT
AND PLUNGE INTO RECESSION. HE ARGUED THAT, SINCE IT

IS EXTREMELY DIFFICULT TO LAY OFF WORKERS IN ITALY, CREDIT SQUEEZE SIMPLY CAUSES ECONOMY TO SLOW DOWN WHICH, IN TURN, CAUSES A RISE IN UNIT LABOR COSTS. THIS MAKES ITALIAN GOODS UNCOMPETITIVE, FORCING DEPRECIATION OF CURRENCY, ETC. BAFFI THOUGHT THAT, IF CREDIT POLICY COULD BE SLIGHTLY RELAXED THIS WOULD HELP TO DEFUSE POSSIBLE POLITICAL PRESSURES TO REFLATE LATER THIS YEAR. HE WISHED TO AVOID LATE 1975 SCENARIO WHEN BOTH MONETARY AND FISCAL POLICY BECAME TOO LAX.

3. MINISTER OF FOREIGN TRADE AND FORMER BOI OFFICIAL OSSOLA ALSO WAS CONCERNED ABOUT CREDIT CEILING AND GAVE HIS PERSONAL OPINION IN FAVOR OF RENEGOTIATING CEILING. RELIABLE BOI SOURCE TOLD EMBOFFS THAT PRELIMINARY FIGURE FOR DOMESTIC CREDIT EXPANSION IN SECOND QUARTER OF 1977 WAS 8,235 BILLION LIRE, COMPARED TO IMF AND EC CEILING OF 8,200 BILLION LIRE. SAME SOURCE SAID THAT BOIT WAS RE-EXAMINING DOMESTIC CREDIT EXPANSION DATA IN ORDER TO DETERMINE WHETHER ITALY SHOULD SEEK TO RENEGOTIATE CEILING WITH IMF. THE INITIAL IMPRESSION WAS THAT IT MIGHT NOT BE NECESSARY TO RENEGOTIATE, BUT THIS WAS BY NO MEANS A FINAL OPINION.

4. ARGUMENTS WHICH HAVE BEEN MADE IN FAVOR OF SOME RELAXATION OF DOMESTIC CREDIT CEILING ARE BASED ON FACT THAT ITALY HAS DONE BETTER THAN EXPECTED AGAINST LIMITED OFFICIAL USE

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BALANCE OF PAYMENTS AND INFLATION TARGETS, SO THAT THERE IS SOME ROOM FOR RELAXING CREDIT TO TRY TO OFFSET SHARPER THAN EXPECTED DROP IN INDUSTRIAL PRODUCTION. EMBASSY IS PRESENTLY EXAMINING MONETARY DATA IN ORDER TO JUDGE VALIDITY OF VARIOUS ARGUMENTS BEING PRESENTED. OUR INITIAL IMPRESSION IS THAT CREDIT CEILING IS, IN FACT, QUITE STRINGENT. HOWEVER, WE ARE NOT YET CERTAIN THAT NEW TARGET SHOULD BE RENEGOTIATED WITH IMF. HOLMES

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Message Attributes

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Copy: SINGLE
Sent Date: 31-Aug-1977 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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Disposition History: n/a
Disposition Reason:
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